

TAX INCREMENT FINANCING FUND

Description: The Tax Increment Financing (TIF) Fund is utilized by the Village to amass and expend resources for capital improvements and projects for the redevelopment of the Village's downtown area.

Fund Structure

In 2000, the Village Board designated an area within the Village Center as a Tax Increment Financing (TIF) District. As a result of this action, the total equalized assessed value of all properties within this area was frozen at its 1998 value. Any increase in the total equalized assessed value within this area is assigned to the TIF district. The increase in total equalized assessed value in the District, referred to as the "increment" is subject to the same tax rate as properties outside the district. The difference is that the revenues generated by applying the tax rate to the increment flows to the Village to pay for TIF eligible administrative and project expenses. The objective of the TIF District is to provide for necessary public improvements as well as financial assistance to promote redevelopment activities within the Village Center. Without the TIF District, development in the Village Center is unlikely to occur. The TIF District has an expected life of 23 years; the District and this Fund, unless extended by action of the Corporate Authorities of the Village, will terminate in 2023.

The TIF Fund is a governmental fund type which means the revenues, expenditures, transfers, and changes in fund balance are accounted for in accordance with the modified accrual basis of accounting (*please see the Basis of Budgeting section on Pages 30-31 for a more thorough description of modified accrual accounting*). The TIF Fund only has the Unreserved – Undesignated Fund Balance which represents the sum total of assets or future obligations of the Fund.

Minimum Fund Balances

No minimum balance has been established for the TIF Fund; the Fund exists to provide resources for capital improvements and the Fund Balance will be negative for the majority of the life of the TIF. Loans of equity have been made to the TIF Fund by the Capital Improvement Fund to provide seed money for projects in the TIF District. The negative balance in the TIF Fund represents the amount owed to the Capital Improvement Fund.

Total estimated project costs, excluding financing costs, were established in the Village Center Tax Increment Financing Redevelopment Project and Plan at \$16,500,000. Based on the following actual and/or projected expenditures/commitments through 2004, \$9,406,555 is available for future projects:

| | |
|---------------------------------|------------------|
| Expenditure Limit | \$16,500,000 |
| <u>Less:</u> | |
| 2000 Expenditures | 540,304 |
| 2001 Expenditures | 2,572,124 |
| 2002 Expenditures | 939,541 |
| 2003 Expenditures | 721,476 |
| 2004 Projected Expenditures | 545,000 |
| Cook Street Plaza Commitment | 1,775,000 |
| Remaining Balance | <u>9,406,555</u> |

The Village has decided to retain \$406,555 of this remaining balance in reserve for future contingencies, thereby leaving a remaining expenditure limit of \$9,000,000 for the life of the TIF District.

Analysis of Revenues and Expenditures

The 2005 Budget includes \$5,574,900 in estimated revenues for the TIF Fund, an increase of \$317,400 (6.27%) from the 2004 revenue estimate of \$5,257,500. However, 2005 estimated revenues increase \$5,065,250 from 2004 projected actual revenues of \$509,650. The 2006 Budget includes \$1,850,150 in total revenues for the TIF Fund, a decrease of \$3,724,750 (66.81%) from the 2005 revenue estimate (*please see the Revenue Descriptions, Historical Trends, and Projections section on Pages 71-89 for more detailed analysis of various revenue sources*).

- Property Taxes increase \$65,000 (14.94%) in 2005, from \$435,000 in 2004 (*projected actual*) to \$500,000. A further increase of \$25,000 (5.00%) to \$525,000 occurs in 2006. These increases are due to increases in the equalized assessed value within the District as a result of new construction and the renovating of existing buildings. The increase in the equalized assessed value is also caused, to a lesser degree, by natural appreciation in property values.
- Village Property Usage is expected to increase \$250 in 2005, from \$68,500 in 2004 (*projected actual*) to \$68,750 in 2005. In 2006, this revenue source is expected to increase an additional \$250 to \$69,000.
- Investment Income is expected to remain stable at \$6,150 in both 2005 and 2006.
- Other Financing Sources are expected to be \$5,000,000 in 2005 and \$1,250,000 in 2006. These revenues reflect the proceeds from borrowings that the Village will consider in conjunction with proposed parking improvement and other redevelopment activities that may be approved by the Village.

The 2005 Budget includes \$5,910,000 in budgeted expenditures for the TIF Fund, an increase of \$140,000 (2.37%) from the 2004 Budget of \$5,770,000 and an increase of \$5,305,000 from the projected 2004 actual of \$605,000. The 2006 Budget includes \$2,260,000 in total expenditures for the TIF Fund, a decrease of \$3,650,000 (61.76%) from 2005 budgeted expenditures.

- Administration Expenditures, budgeted at \$200,000 in both 2005 and 2006, will remain stable when compared to prior years.
- Building and Façade Rehabilitations, budgeted at \$250,000 in both 2005 and 2006, will also remain stable when compared to prior years.
- The Budget for Redevelopment Projects equals \$5,000,000 in 2005 and \$1,250,000 in 2006. These budgets are reflective of the amount anticipated to be expended for parking improvements and other redevelopment activities within the Village's TIF District (*please see the Capital Improvements section on Pages 226-250 for a complete description of these enhancements*).
- Streetscape expenditures are budgeted at \$400,000 in 2005 and \$500,000 in 2006. These expenditures provide for the continuation of Streetscape enhancements in the Village Central Business District (*please see the Capital Improvements section on Pages 226-250 for a complete description of these enhancements*).
- Debt Service Expenditures are budgeted at \$60,000 in both 2005 and 2006. These are interest payments to the Capital Improvement Fund (at a 5% rate) on the \$1,200,000 loaned to the TIF Fund for Downtown Redevelopment Projects (*the Capital Improvement Fund will have loaned \$5,000,000 to the TIF Fund by the end of 2006 but the majority of these loans were for Streetscape Enhancements which the TIF Fund is not required to pay interest on; the TIF Fund only pays interest on loans for Downtown Redevelopment*).

Changes in Fund Balances

The TIF Fund Balance will decrease \$335,100 (7.66%) in 2005 to a negative total of \$4,710,944. In 2006, the total balance will decrease a further \$809,850 (17.19%) to a negative total of \$5,520,794 (*the 2006 Balance includes an additional \$400,000 loan from the Capital Improvement Fund that is not reflected in the Summary of Revenues, Expenditures, Transfers, and Changes in Fund Balance because it is a Balance Sheet Transaction*).

These negative Fund Balances are expected and are a part of the financing mechanism for capital improvements within the TIF District. The TIF Fund will probably have a negative balance for the majority of its existence as it pays off loans it received early in its existence with incremental Property Tax revenues derived from the increase in property values in the District. The negative Fund Balance in TIF is reflective of the loans that the Capital Improvement Fund has made to the TIF Fund since 2000 (*a total of \$4,600,000 at the end of 2004, less accumulated equity from other revenue sources*).

To understand the resource available for the TIF Fund to invest in the community, an examination of the cash balance in the Fund is necessary. The projected cash balances for the Fund for fiscal years 2005 and 2006 are:

| <u>Fiscal Year</u> | <u>Beginning Cash Balance</u> | <u>Additions</u> | <u>Uses</u> | <u>Ending Cash Balance</u> |
|--------------------|-----------------------------------|------------------|-------------|--------------------------------|
| 2004 | 518,108 | 509,650 | 605,000 | 422,758 |
| 2005 | 422,758 | 5,574,000 | 5,910,000 | 89,758 |
| 2006 | 86,758 | 2,250,150 | 2,260,000 | 76,908 |

Tax Increment Financing Redevelopment Fund
Summary of Revenues, Expenditures, Transfers, and Changes in Fund Balance
Fiscal Year 2002 Actual through Fiscal Year 2006 Budget

| | FY 2002 | FY 2003 | FY 2004 | FY 2004 | FY 2005 | FY 2006 |
|---|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Budget</u> | <u>Projected</u> | <u>Budget</u> | <u>Budget</u> |
| Beginning Total Fund Balance | \$ (3,004,742) | \$ (3,700,747) | \$ (3,975,844) | \$ (3,975,844) | \$ (4,375,844) | \$ (4,710,944) |
| <i>Revenues</i> | | | | | | |
| Property Taxes | 224,858 | 426,668 | 285,000 | 435,000 | 500,000 | 525,000 |
| Intergovernmental | - | - | - | - | - | - |
| Village Property Usage | 67,040 | 68,293 | 67,500 | 68,500 | 68,750 | 69,000 |
| Investment Income | 6,638 | 6,017 | - | 6,150 | 6,150 | 6,150 |
| Miscellaneous | 5,000 | 5,401 | 5,000 | - | - | - |
| Other Financing Sources | - | - | 4,900,000 | - | 5,000,000 | 1,250,000 |
| Total Revenues | 303,536 | 506,379 | 5,257,500 | 509,650 | 5,574,900 | 1,850,150 |
| <i>Expenditures</i> | | | | | | |
| Administration | 123,052 | 41,527 | 200,000 | 200,000 | 200,000 | 200,000 |
| Building and Façade Rehabilitations | - | - | 250,000 | 210,000 | 250,000 | 250,000 |
| Redevelopment Projects | 15,422 | - | 4,675,000 | - | 5,000,000 | 1,250,000 |
| Streetscape Projects | 801,067 | 679,949 | 585,000 | 135,000 | 400,000 | 500,000 |
| Debt Service Expenditures | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 |
| Total Expenditures | 999,541 | 781,476 | 5,770,000 | 605,000 | 5,910,000 | 2,260,000 |
| Excess (Deficiency) of Revenues | | | | | | |
| Over (Under) Expenditures | (696,005) | (275,097) | (512,500) | (95,350) | (335,100) | (409,850) |
| Ending Fund Balance⁽¹⁾⁽²⁾ | | | | | | |
| Unreserved - Undesignated | (3,700,747) | (3,975,844) | (4,375,844) | (4,375,844) | (4,710,944) | (5,520,794) |
| Total Ending Fund Balance | \$ (3,700,747) | \$ (3,975,844) | \$ (4,375,844) | \$ (4,375,844) | \$ (4,710,944) | \$ (5,520,794) |

Notes

- (1) The negative Fund Balance in the Tax Increment Financing Redevelopment Fund is a result of advances that have been provided to the Fund by the Village's Capital Improvement Fund. These advances are balance sheet transactions that are considered advances of Fund Equity, therefore they are not displayed as revenues or transfers in. Any Deficiency of Revenues Under Expenditures are offset by the transfers of Fund Equity. The negative Fund Balance is planned and appropriate future funding measures have been adopted in the anticipation of repayment of all or a portion of the advances. The year and the amounts of the advances through the end of FY 2006 are displayed below:

| <u>Advancing Fund</u> | <u>Fiscal</u> | <u>Advance</u> | <u>Cumulative</u> |
|------------------------------|----------------------|-----------------------|--------------------------|
| | <u>Year</u> | <u>Amount</u> | <u>Advance</u> |
| Capital Improvement Fund | 2000 | \$ 2,000,000 | \$ 2,000,000 |
| Capital Improvement Fund | 2001 | 800,000 | 2,800,000 |
| Capital Improvement Fund | 2002 | 800,000 | 3,600,000 |
| Capital Improvement Fund | 2003 | 600,000 | 4,200,000 |
| Capital Improvement Fund | 2004 | 400,000 | 4,600,000 |
| Capital Improvemetr Fund | 2006 | 400,000 | 5,000,000 |

- (2) Please see the Tax Increment Financing Redevelopment Fund Summary and the Capital Improvement Fund Summary for further detailed descriptions of Village policies and procedures regarding the advancement of Fund Equity.